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EVALUATION OF THE OBJECTIVES AND FUNCTIONS OF UNIDO IN VIEW OF RECENT CHANGES AND DEVELOPMENTS IN THE WORLD

Report by the Director-General

Summary

In accordance with resolution GC.4/Res.20 of the General Conference, reports on steps taken to ensure that the activities of UNIDO are consistent with the efforts of developing countries to ensure their active participation in the world economy.

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Introduction

1. At its fourth regular session, the General Conference adopted resolution GC.4/Res.20 in which it noted the report submitted by the Director-General to the eighth session of the Board on the evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world (GC.4/18-IDB.8/40) and raised a number of issues related to the subject. In particular, paragraphs 1, 2, 5 and 6 of that resolution called for specific action by the Director-General.

2. Paragraph 1 of resolution GC.4/Res.20 requested the Director-General to ensure that the voluntary contributions he accepts on behalf of UNIDO are in conformity with the objectives and policies of the Organization. Paragraph 2 requested the Director-General to ensure that the increased requests for technical cooperation from UNIDO do not detract from available resources for the industrial development of the developing countries. Information relevant to those mandates is provided in the documents on the Industrial Development Fund (IDF) and other voluntary contributions (IDB.10/2, chap. II and IDB.9/10, chap. VIII, paras. 14-20 and appendix G) and on guidelines and procedures governing acceptance and funding under special trust funds, IDF and the regular budget (IDB.10/10, IDB.10/15 and UNIDO/DG/B.18/Rev.1).

3. Paragraphs 5 and 6 of the resolution requested the Director-General to ensure that UNIDO promotes the active participation of developing countries in the current changes of the world economy and that the activities of UNIDO are consistent with the efforts of developing countries to ensure that participation. In addition to the report on the evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world mentioned in paragraph 1 above (GC.4/18-IDB.8/40), in response to United Nations General Assembly resolution 45/196, the Director-General also reported to the Board at its eighth session on industrial development cooperation and diversification and modernization of productive activities in developing countries (IDB.8/32). That report provided, inter alia, a basis for an examination of current and future changes and developments in the world, including the industrial sector. It contained 15 recommendations to the General Assembly, including a proposal for a study on the structure of world industry from the long-term perspective. Subsequently, at the request of the

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General Assembly, the recommendation for a study on the structure of world industry was elaborated and submitted to the ninth session of the Board (IDB.9/5). Against that broad background, the present report focuses on efforts to ensure the participation of developing countries in current changes of the world economy.

I. PARTICIPATION OF DEVELOPING COUNTRIES IN CURRENT CHANGES OF THE WORLD ECONOMY

4. The active participation of developing countries in the world economy implies a focus on cross border transactions, i.e. foreign trade, both imports and exports, and cross border resource flows including capital, technology, information and management/marketing resources embodied in foreign direct investment. UNIDO has been active in carrying out concrete steps in promoting those activities and in assisting developing countries in strengthening their capacities to facilitate an expansion of the diversity and scale of such cross border transactions. Thus, UNIDO's contribution, through concrete measures to increase the developing countries' participation in the global economy, can be characterized as both direct and indirect. Document GC.5/6-IDB.10/20 on the mobilization of financial resources for industrial development and the external debt and industrial development contains information on concrete actions taken by the Director-General to facilitate the active participation of developing countries in the world economy.

5. The essential point of resolution GC.4/Res.20 is that UNIDO activities be seen within the context of recent changes and developments in the world, as made explicit in its title. The Director-General has given high priority to the Global Report, published annually as a formal and substantive tool for identifying major global developments and their impact on industrialization. In Industry and Development: Global Report 1992/93 (ID/382),* the following major changes in the global economy received attention:

(a) Regional disintegration (chaps. I, II, IV);

(b) The current recession and its structure in Western Europe and North America (chaps. I, III);

(c) New perceptions concerning technological growth, labour productivity and human resource development in the 10 world regions (chap. II);

(d) The marginalization of the least developed countries: progress in the 1970s and stagnation in the 1980s (chaps. I, II);

(e) The demise of central planning and the rise of privatization (chaps. I, IV).

Regional disintegration

6. In 1991, for the first time in more than 50 years, global output declined because of the recession and the collapse of the centrally planned economies of Europe. The disintegration of the former Union of Soviet Socialist Republics meant not only the dissolution of a political entity, but signalled the demise of a central planning strategy for industrialization. The role of market forces and price liberalization have now become nearly universal as a strategy for industrial development (Industry and Development: Global Report 1992/93 (ID/382), chaps. I, II, IV).

7. UNIDO has modified its approach to industrial planning in recent years, including such concepts as industrial master plans, and further modifications have included the development of a new approach, the strategic management of industrial development, as described in the progress report on new concepts and approaches for cooperation in respect to industrial development in conformity with Article 2 (c) of the Constitution (IDB.8/39-GC.4/17, paras. 39-41). This strategic management approach has been followed by a large number of African countries and is now being introduced in the Asian region.

The current recession and its structure in Western Europe and North America

8. The most recent recession has proved to be one of the longest, and although world growth is expected to expand in 1993, recovery in the developed countries will remain sluggish. The analysis presented (ibid., chaps. I, III) identifies those elements in the recession which form parts of normal business cycles and those elements of a longer-term nature. In particular, everywhere in the world economy employment continues to be a major concern. The recession in the richer countries combined with longer-run factors has resulted in 30 million unemployed in the countries of the Organisation for Economic Cooperation and Development (OECD) in 1992. There is now large-scale open unemployment in the former centrally planned economies. In developing countries there are persistent complaints that industrial growth, even when it is rapid, fails to generate jobs at the rate needed to keep up with the growth of the labour force. These are not unconnected developments since a steadily expanding economy in the OECD countries is essential for rapid growth everywhere. However, it should be emphasized that the fruits of rapid industrialization are as evident in extra employment in other economic sectors as in manufacturing. Chapter III of Industry and Development: Global Report 1992/93 (ID/382) contains a structural analysis of eight Asian economies and demonstrates the symbiotic relationships between manufacturing and agriculture and between manufacturing and services.

9. Information on technical cooperation activities that have the objective, inter alia, of strengthening the symbiosis between manufacturing and agriculture and manufacturing and services is contained in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 62-72, 115-125).

New perceptions concerning technological growth, labour productivity and human resource development

10. Two major elements, institutions and human skills, go a long way in explaining interregional differences in technical progress and hence industrial performance. Raising productivity in manufacturing does not necessarily require natural resource endowments; more essential is investment in the building of institutions and human capabilities and skills. In comparing the industrial performance of the 10 major regions of the world, the Global Report for 1991/92 (ID/376) focused in chapter II on the role of institutions and the institutional infrastructure in those regions.

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* Scheduled for issuance in late October 1992.

The Global Report for 1992/93 (ID/382) examines in chapter II interregional growth performance from the perspective of human skills and training, since changed perceptions of the new roles of technology in industrial production could lead to fundamental policy changes in human resource priorities for industrialization. The analysis also contains an examination of a cooperative venture between Bangladeshi entrepreneurs and Daewoo, from the Republic of Korea, with an essential training component.* Bangladeshi staff were able to learn not only narrowly defined production skills, but also the know-how and skills embodied in the system of marketing and management of Daewoo and its dynamic, effective corporate culture.

11. The importance of human resource development has long been recognized by UNIDO, and technical cooperation activities in this area are described in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 141-148) and the progress report for 1992 (IDB.10/18, chap. II). These activities are useful, and just as useful are the capabilities and skills transfer that occur as a result of UNIDO's promotion of enterprise-to-enterprise cooperation (IDB.9/10, chap. III, paras. 34-44 and chap. IV, paras. 32-35). However, attention may also need to be directed towards how the intangibles of the corporate cultures in the most successful business firms can be transferred successfully. A related issue is that, although the importance of investment in human capital is widely recognized, attention may need to be directed towards identifying the specifics in making such investment efficient.

The marginalization of the least developed countries

12. While Latin America is witnessing a revival in growth and inward capital flows and growth in most Asian economies is virtually self-sustained, sub-Saharan Africa constitutes the most serious challenge to the international development community. During the decade of the 1970s, of the world's poorest 50 countries (those in which the majority of the population exists on the equivalent of less than one dollar per day), some 10 were able to escape from the category of the poorest. During the 1980s, that number totalled only four. Almost all of those 50 poorest countries are in sub-Saharan Africa. Unless the world economy recovers to the pace of growth observed in the 1970s, nine out of ten of the 50 poorest countries will remain in that category for at least another decade. During the 1970s and 1980s, the income levels of 26 developing countries suffered continuous decline, and of those, seven joined the ranks of the 50 poorest countries. The list of countries that lost income from 1970 to 1990 includes some of the world's poorest and their losses were staggeringly large. For example, Mozambique's per capita income dropped from $283 to $117 (-59 per cent); Liberia from $536 to $227 (-58 per cent); Benin, Chad, Ghana, Madagascar, Sierra Leone, Uganda and Zaire all lost between 25 and 50 per cent of their income during those two decades. Those which lost income between 3 and 25 per cent include the Central African Republic, Comoros, Ethiopia, Guinea, Guinea-Bissau, Mauritania, Niger, and the United Republic of Tanzania. In contrast, during the period 1970 to 1990, some 33 out of the original 50 poorest countries made a positive gain in income, of which 11 countries at least doubled their per capita income during the 20-year span, in spite of their higher than average population growth rates. Those include Egypt, Indonesia, Thailand, and such land-locked countries as Bhutan, Botswana and Lesotho, as well as a number of small island countries such as the Maldives and St. Vincent.

13. UNIDO recognizes the priority claims of the poorest countries. Information on concrete UNIDO actions with respect to those countries is contained in the Annual Report of UNIDO 1991 (ibid., chap. IV, paras. 8-15, and appendix F).

The demise of central planning and the rise of privatization

14. Findings shown in chapter IV of the Global Report for 1992/93 (ID/382) indicated that the two most important objectives of privatization are the improvement of economic efficiency and the reduction of public budget deficits, including deficits arising from efforts to service external debts. The analysis found that, despite the considerable commitment by Governments to the divestiture of state-owned enterprises, delays have arisen because of economic conditions, including difficulties posed by underdeveloped financial and capital market institutions and infrastructure, a weak administrative capacity, and lack of foreign investor interest. Further highlights of that analysis that are also relevant to the present discussion are contained in paragraph 7 of document GC.5/6-IDB.10/20.

II. POLICY RESPONSE BY UNIDO TO CURRENT CHANGES IN THE WORLD ECONOMY

15. Concrete actions taken in response to current changes in the world economy are reflected in the technical cooperation activities delivered by UNIDO. The current changes in the international economic environment have influenced the content of such activities or prompted the development of new ones, as described in the documents referred to in paragraphs 4, 7, 9, 11, 13 and 14 above. At the same time, as was pointed out to the Special Advisory Group to the Director-General at its last session in May 1992, sweeping changes have emerged in the operating environment of UNIDO. Thus the redefinition by the United Nations Development Programme of the relationships in the tripartite system of technical cooperation has resulted, inter alia, in an increasingly unpredictable flow of resources to UNIDO. Furthermore, the status of UNIDO's clients and the nature of services required are drastically changing as a result of economic liberalization in developing countries and the introduction of market economy principles in the countries of Eastern Europe. These trends are inducing a marked shift in the demand for UNIDO services towards sectoral analyses, policy advice and work at the programme level. The challenge for UNIDO will lie in the strengthening of its capability to design and implement integrated programmes drawing upon the full range of expertise available in the Organization.

III. ACTION REQUIRED OF THE BOARD

16. The Board may wish to take note of the present report and provide guidance on further activities to be developed by UNIDO.

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* See box in chapter II, "Bangladesh's success with garment exports: what South-South cooperation in training can do", ibid.